

Beginning this fiscal year-end, supporting documentation must be provided to DFA-Office of Accounting-CAFR Section for submission to Legislative Audit for amounts in each custodial credit risk column of Forms 1A, 1B, and 1C. The following checklists are provided as a guide to assist agencies in completing custodial credit risk columns of Forms 1A, 1B, and 1C.

CUSTODIAL CREDIT RISK CLASSIFICATION AND VERIFICATION

Investments, Except Repurchase Agreements

The following questions will assist agencies in completing columns (n) through (r) of Form 1B. Supporting documentation must be provided to DFA – Office of Accounting – CAFR Section for submission to Legislative Audit for insurance, registration and securities that verifies which party holds the securities and whether the securities are held in the name of the government.

	<u>Yes</u>	<u>No</u>
A. Is the investment represented by securities?	Go to B	Column (r) on Form 1B
B. Are the securities covered by SIPC protection or other brokerage insurance?	Column (n) on Form 1B	Go to C
C. Are the securities registered with the issuer in the government's name (and not in negotiable form, for example, by endorsement in blank)?	Column (n) on Form 1B	Go to D
D. Are the securities in the possession of the government, either physically or through its own book entry account?	Column (n) on Form 1B	Go to E
E. Which of the following outside parties has possession of the securities, either physically or through a book entry account?		
1. The same party that sold them to or bought them for the agency (the counterparty)		Column (p) on Form 1B
2. The safekeeping department of the counterparty		Column (p) on Form 1B
3. An affiliate of the counterparty financial institution, the trust department of the counterparty financial institution, the trust department of an affiliate of the counterparty financial institution, or a third party that is an agent only of the counterparty?		Go to F
4. A third party that is an agent both of the counterparty and of the government, and that is not the trust department or an affiliate of the counterparty financial institution.		Go to G
5. A third party that is an agent only of the government, and that is not the trust department or an affiliate of the counterparty financial institution		Go to G

- F. The investments are classified in column (o) if they are “held in the name of the government.” Otherwise, they are in column (q). For an investment to be “held in the name of the government” the custodian’s internal records should recognize the State or agency as the owner of the securities. Further, if the securities are in paper form, they should be bearer securities or be registered in street or nominee name to be “held in the name of the government.” If the securities are in a book entry system, they should be held in a street name, nominee name, or customer account to be “held in the name of the government.”
- G. The investments are classified in column (n) if they are “held in the name of the government.” For an investment to be so held, the custodian’s internal records should recognize the government as the owner of the securities. Further, if the securities are in paper form, they should be bearer securities or be registered in street or nominee name to be “held in the name of the government.” If the securities are in a book entry system, they should be held in a street name, nominee name, or customer account to be “held in the name of the government.”
- H. If the securities are not in the possession of one of the parties listed earlier in E, they are likely in the possession of a party that is acting in an agency capacity (a “correspondent”) for one of those parties. If this correspondent knows that its customer is holding the securities for another party, but the correspondent’s internal records do not identify the government as the owner, the government’s investment would be classified as if the securities were in the possession of the correspondent’s customer. That is, the custodian’s use of a correspondent would not affect classification. However, if the correspondent does not know that its customer is holding the securities for another party but believes the customer is holding the securities for itself, the government’s investment would be classified in column (q). On the other hand, if the correspondent’s customer is a counterparty to the government’s investment transaction and the correspondent’s internal records identify the government as the owner, the government’s investment would be classified in column (o).

Deposits (Checking, Savings, Certificates of Deposit) and Repurchase Agreements

The following questions will assist agencies in completing columns (h) through (m) of Form 1A and columns (j) through (o) of Form 1C. Supporting documentation must be provided to DFA – Office of Accounting – CAFR Section for submission to Legislative Audit for pledged securities that verifies which party holds the securities and whether the securities are held in the name of the government.

- | | <u>Yes</u> | <u>No</u> |
|--|---|------------------|
| A. Is the deposit insured by federal or other insurance?
Each agency may have up to \$100,000 FDIC insurance for interest bearing accounts, and another \$100,000 FDIC insurance for non-interest bearing accounts with banks within the borders of Arkansas, for a maximum of \$200,000 for in-state banks. If the | Column (h) on
Form 1A, (j) on
Form 1C | Go to B |

agency has several accounts with different branches of the same financial institution, the \$100,000 FDIC insurance is limited to the financial institution rather than the branch of the financial institution.

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| B. | Is the uninsured deposit collateralized? | Go to C | Column (m) on Form 1A, (o) on Form 1C |
| C. | Are the collateral securities in a Federal Reserve pledge account? | Column (i) on Form 1A, (k) on Form 1C. | Go to D |
| D. | Are the securities in the possession of the government, either physically or through its own book entry account? | Column (i) on Form 1A, (k) on Form 1C. | Go to E |
| E. | Which of the following outside parties has possession of the securities, either physically or through a book entry account? | | |
| | 1. The counterparty-that is, the pledging financial institution, the seller-borrower of the repurchase agreement, or the party that acquired the repurchase agreement for the government. | | Column (j) on Form 1A, (l) on Form 1C. |
| | 2. The safekeeping department of the counterparty or an affiliate of the counterparty financial institution. | | Column (j) on Form 1A, (l) on Form 1C. |
| | 3. The trust department of the counterparty financial institution, the trust department of an affiliate of the counterparty financial institution, or a third party that is an agent only of the counterparty. | | Go to F |
| | 4. A third party that is an agent both of the counterparty and of the government, and that is not the trust department or an affiliate of the counterparty financial institution. | | Go to G |
| | 5. A third party that is an agent only of the government, and that is not the trust department or an affiliate of the counterparty financial institution. | | Go to G |
| | 6. Someone else | | Go to H |
| F. | The deposits or repurchase agreements are classified in column (k) of Form 1A, column (m) on Form 1C if they are “held in the name of the government.” Otherwise, they are in column (l) on Form 1A, (n) on Form 1C. For a deposit or repurchase agreement to be “held in the name of the government,” the custodian’s internal records should recognize the government as the pledge of the securities. Further, if the securities are in a book entry system, they should be held in a street name, nominee name, or customer account to be “held in the name of the government.” | | |
| G. | The deposits or repurchase agreements are classified in column (i) of Form 1A, (k) of Form 1C if they are “held in the name of the government.” For a deposit or repurchase agreement | | |

to be so held, the custodian's internal should recognize the government as the pledge of the securities. Provide notice of such pledge. Further, if the securities are in a book entry system, they should be held in a street name, nominee name, or customer account to be "held in the name of the government."

- H. If the securities are not in the possession of one of the parties listed earlier in E, they are likely in the possession of a party that is acting in an agency capacity (a "correspondent") for one of those parties. If this correspondent knows that its customer is holding the securities for another party, but the correspondent knows that its customer is holding the securities for another party, but the correspondent's internal records do not identify the government as the pledgee, the government's deposits and repurchase agreements would be classified as if the securities were in the possession of the correspondent's customer. That is, the custodian's use of a correspondent would not affect classification. However, if the correspondent does not know that its customer is holding the securities for another party but believes the customer is holding the securities for itself, the government's deposits and repurchase agreements would be classified in column (j) on Form 1A, (l) on Form 1C. On the other hand, if the correspondent's customer is a counterparty to the government's deposit or repurchase agreement transaction and the correspondent's internal records identify the government as the pledge, the government's deposits and repurchase agreements would be classified in column (k) on Form 1A, (m) on Form 1C